Canadian Reserve Oil and Gas Ltd.
annual report 1980

CONTENTS

ANNUAL MEETING

The Annual General Meeting of the Shareholders of the Company will be held at The Glencoe Club, Calgary, Alberta, on April 9, 1981 at 10:00 a.m. (Calgary Time)

HIGHLIGHTS

(Dollar amounts in thousands except per share figures)

	1980	1979	% Change
Gross Revenue	**$38,424**	$32,031	+20
Cash Flow	**$20,802**	$17,110	+22
Per Share	**$ 2.11**	$ 1.74	
Net Earnings	**$ 8,842**	$ 8,226	+ 7
Per Share	**$ .90**	$ .84	
Working Capital at Year End	**$12,052**	$ 9,900	+22
Property & Equipment Additions	**$24,128**	$18,866	+28
Oil & Natural Gas Liquids Sales (Before Royalty Deduction)			
*M^3	**352,618**	360,301	−2
M^3 Per Day	**966**	987	
Natural Gas Sales (Before Royalty Deduction)			
**10^3M^3	**194,423**	232,463	−16
10^3M^3 Per Day	**533**	637	
Wells Drilled — Net			
Oil	**30**	53	
Gas	**8**	7	
Dry	**21**	19	
Total	**59**	79	
Hectares — Net Working Interest	**333,012**	527,048	
Outstanding Shares at Year End	**9,877,737**	9,837,137	

* M^3 — cubic metres
**10^3M^3 — thousands of cubic metres

To convert cubic metres to barrels multiply by 6.3
To convert cubic metres to cubic feet multiply by 35.5
To convert hectares to acres multiply by 2.5

TO THE SHAREHOLDERS

Your Board of Directors is pleased to report that 1980 was another excellent growth year for the company: gross revenue increased by 20% to $38,424,000 and cash flow was $20,802,000 an increase of 22%. Cash flow before income tax was $20,597,000 or 11% greater than in 1979. Net earnings increased 7% to $8,842,000 or $.90 per share as compared with $.84 per share for the previous year.

In 1980, oil and natural gas liquids production was maintained at about the 1979 level, while natural gas production declined by approximately 16%. Industry is still plagued with a lack of new markets for its surplus natural gas. If the same level of activity is to continue, higher prices are required with a greater percentage of such increases reaching the producer.

Gross sales of oil and natural gas liquids were 966 m^3/d and gross natural gas sales were 533 $10^3m^3/d$. Gross sulphur sales for the year totalled 52,839 tonnes.

During the fourth quarter of 1980, Canadian Reserve brought on production a significant new oil well in the Pembina area of west central Alberta. The well tested at a rate of 475 m^3/d and was allowed to produce for the month of December at the rate of 250 m^3/d. The Energy Resources Conservation Board has ordered the well shut in until a miscible flood scheme is in place. This conservation scheme will ultimately increase oil recovery from the reservoir and should be in place some time in late 1981. It is estimated that the Company's share of production will be in the order of 142 m^3/d.

In October of 1980, the federal government presented its new budget together with its new National Energy Program. Certainly, the overall

energy program is going to have a very negative effect on the Company's gross revenue, cash flow and net income. While the full effect of the program is still being studied, we estimate that the budget as presented will reduce the Company's income in 1981 by at least 35%. More importantly, however, is that the Company will not be able to continue the very active exploration and development program which it had budgeted for prior to the federal budget.

Large increases in cash flow from oil and natural gas production will be necessary to support the exploration and development program required to enable the industry in Canada to replace existing production and develop new reserves. Costs continue to escalate and the quantity of hydrocarbons per dollar invested is decreasing. We feel that this is the wrong time, through increased taxation and higher royalties, to take more money away from the exploration and development budgets of oil and gas companies without allowing corresponding increases in the price of its products. It is unlikely, under the current budget and energy program of the federal government, that Canada will ever again become self sufficient in energy.

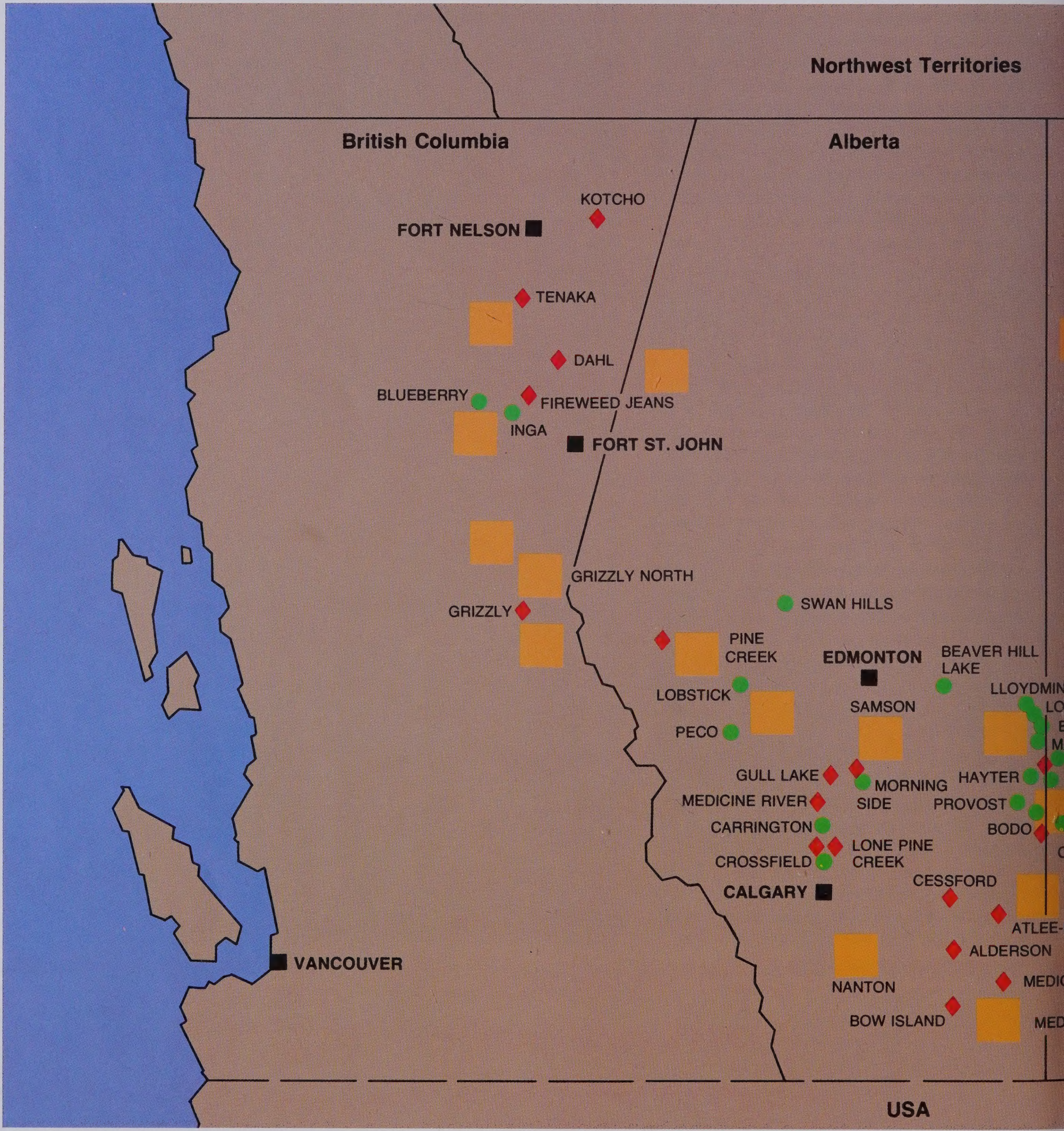
During 1980, several changes were made to the Board of Directors. Leaving the Board were J. R. McMillan, Paul D. Meadows, Cortlandt S. Dietler, Harry Hole and R. Bruce Bailey. Joining the Board were G. E. McKinley, Vice-President and General Manager Canadian Exploration and Production Division of Getty Oil Company; Ron W. Blair, Finance Manager of Getty Oil Company's International Exploration and Production Division; James M. Farley, partner, Perry Farley & Onyschuk, H. N. Stewart, H.N.S. Consultants Ltd.; Joe R. Dundas, President, Canadian Reserve Oil and Gas Ltd. and David W. Talbot, Vice-President and Secretary-Treasurer, Canadian Reserve Oil and Gas Ltd. We welcome all of the new members to our Board of Directors.

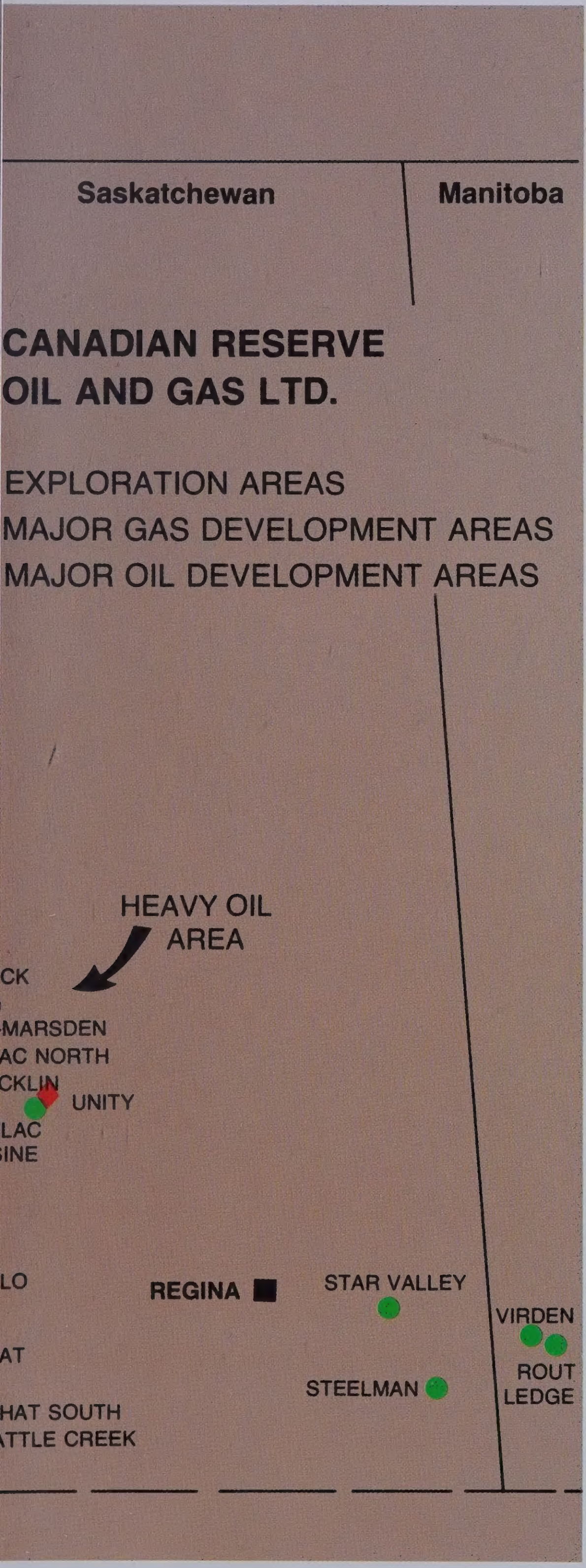
With the federal budget and the national energy program, the Company will experience limited progress in 1981. Hopefully, sometime in 1981, governments will come to realize that legislation which reduces funds available for oil and gas exploration, or which negatively affects the efficiency of the operation of oil and natural gas companies, will not in any manner whatsoever result in an increase in domestic energy supply.

As they have in the past, the employees of Canadian Reserve continued to serve with dedication and proficiency in 1980. We thank the employees for their efforts.

For the Board of Directors,

J. R. Dundas,
President


Northwest Territories
British Columbia
Alberta
KOTCHO
FORT NELSON
TENAKA
DAHL
BLUEBERRY
FIREWEED JEANS
INGA
FORT ST. JOHN
GRIZZLY NORTH
GRIZZLY
SWAN HILLS
PINE CREEK
EDMONTON
BEAVER HILL LAKE
LOBSTICK
SAMSON
PECO
GULL LAKE
MORNING SIDE
HAYTER
MEDICINE RIVER
PROVOST
CARRINGTON
BODO
LONE PINE CREEK
CROSSFIELD
CESSFORD
CALGARY
VANCOUVER
ALDERSON
NANTON
BOW ISLAND
USA



COMPANY PROFILE

Canadian Reserve Oil and Gas Ltd. is an Alberta incorporated Company engaged in exploration, development and production of oil and natural gas, primarily in western Canada. The corporate office is located in Calgary, Alberta, and is currently staffed with 86 employees. In addition, the Company maintains a district office at Lloydminster, Alberta, staffed with 41 employees.

The Company, successor to Fargo Oils Ltd., has maintained an active exploration program in Canada since 1950, and currently holds gross working and royalty interests in 1,146,545 hectares of land located in Canada.

EXPLORATION AND DEVELOPMENT

The Company, in 1980, continued to expand its exploration and development program. It participated in 87 exploratory wells of which 7 were drilled in northeastern British Columbia, 23 were drilled in Alberta and 57 were drilled in the heavy oil areas of Alberta and Saskatchewan.

BRITISH COLUMBIA

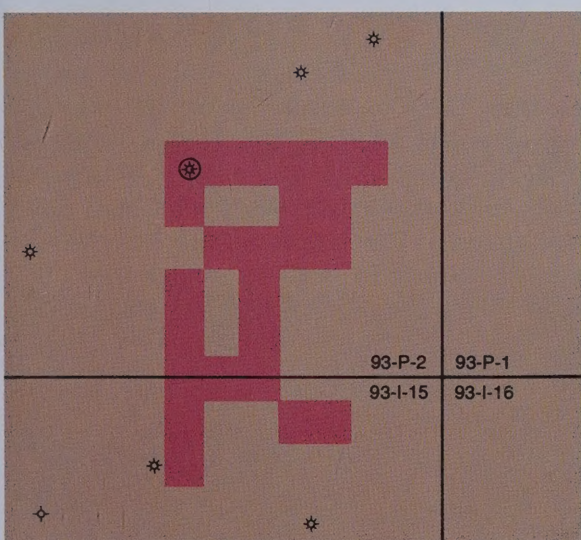
Grizzly North

In Grizzly North, Canadian Reserve and partners drilled a well on a 7035 hectare drilling reservation which delivered gas on an absolute open flow potential test at a rate of $80 \times 10^3 m^3/d$ from the Cadomin formation. Seismic conducted on this land indicates that there are several untested structures, however, existing economics, particularly since the introduction of the National Energy Program, do not support additional drilling at this time.

ALBERTA

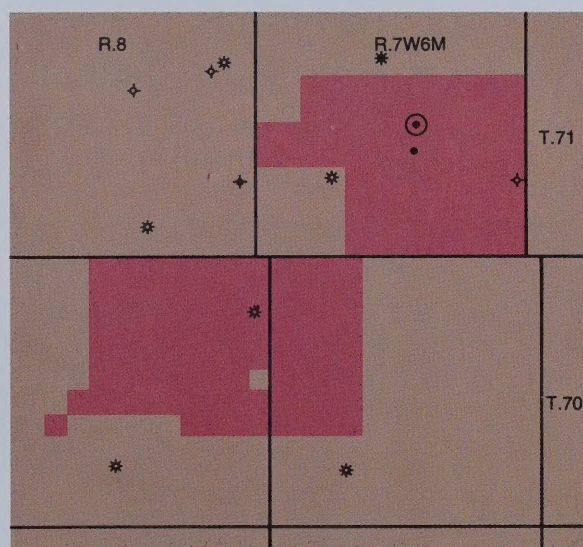
Pipestone

The Company holds a 17.5% working interest in an oil well on these lands which is capable of producing 12 m^3/d and an overriding royalty in an offset oil well which encountered approximately 7 metres of oil pay in the Halfway formation. The Company holds interests in 10,942 gross hectares in this oil prospective area.



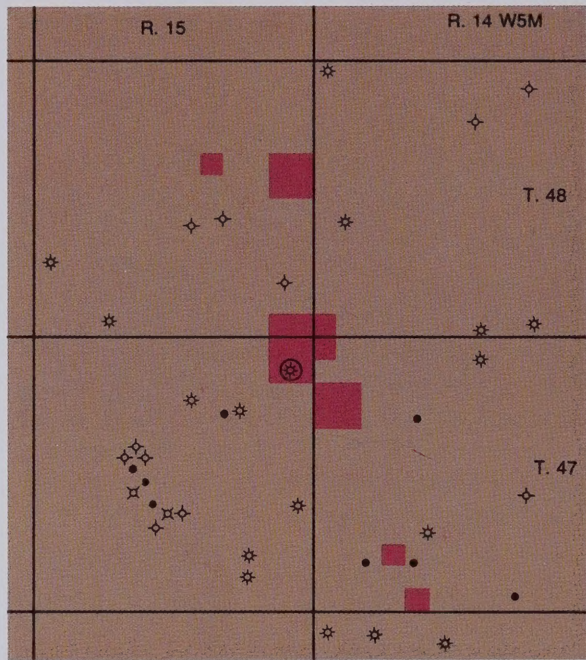
GRIZZLY NORTH AREA

Canadian Reserve working interest acreage
Gas well
Abandoned well
1980 wells
0 miles 3



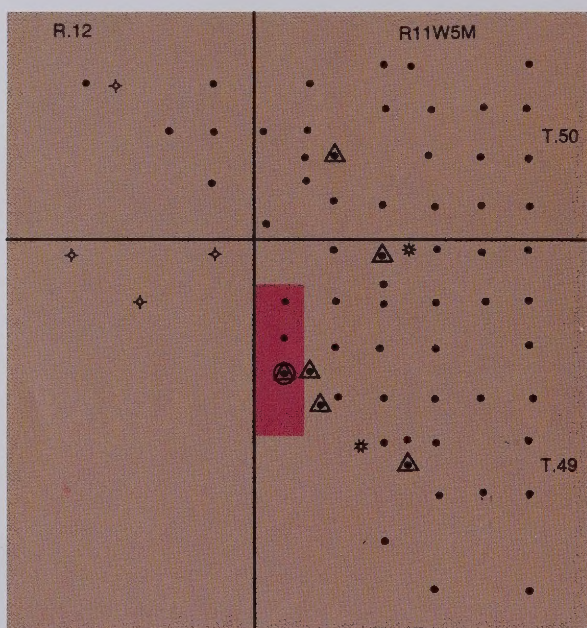
PIPESTONE AREA

Canadian Reserve working interest acreage
Gas well
Abandoned well
Oil well
1980 well
0 miles 3



PECO AREA

Canadian Reserve working interest acreage
Gas well
Abandoned well
Oil well
1980 wells
0 miles 3



RAT CREEK AREA

Canadian Reserve working interest acreage
Gas well
Abandoned well
Oil well
1980 wells
Deep well (Nisku)
0 mile 2

Peco

One natural gas well was drilled in this area testing $1.6 \times 10^6 m^3/d$ on an absolute open flow test. Further seismic, with follow-up drilling, is planned for 1981.

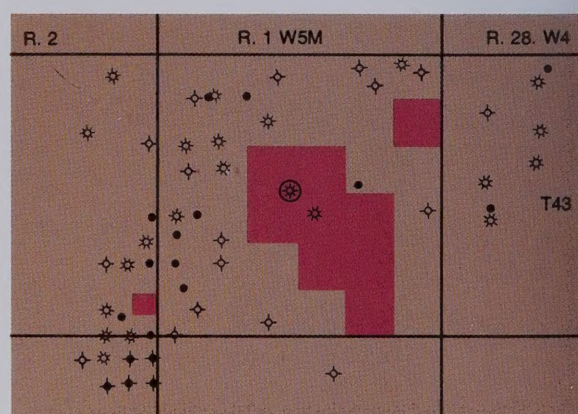
Rat Creek (West Pembina)

The Company drilled a significant oil well in this area during 1980 which production tested at a rate of 475 m^3/d. A follow-up well is planned on the adjoining land in 1981 should the seismic program be successful.

In addition to its 71% interest in this well, Canadian Reserve and partners hold interests in an additional 2752 gross hectares in this West Pembina area.

Homrim

During 1980, the Company participated in the drilling of an Ostracod natural gas well, which is still being tested to determine the absolute open flow potential. The interest of the Company in approximately 3313 hectares ranges from 18% to 36%. This is one of the early delivery areas under the Pan Alberta contract which is expected to go on stream in the fall of 1981.



HOMRIM AREA

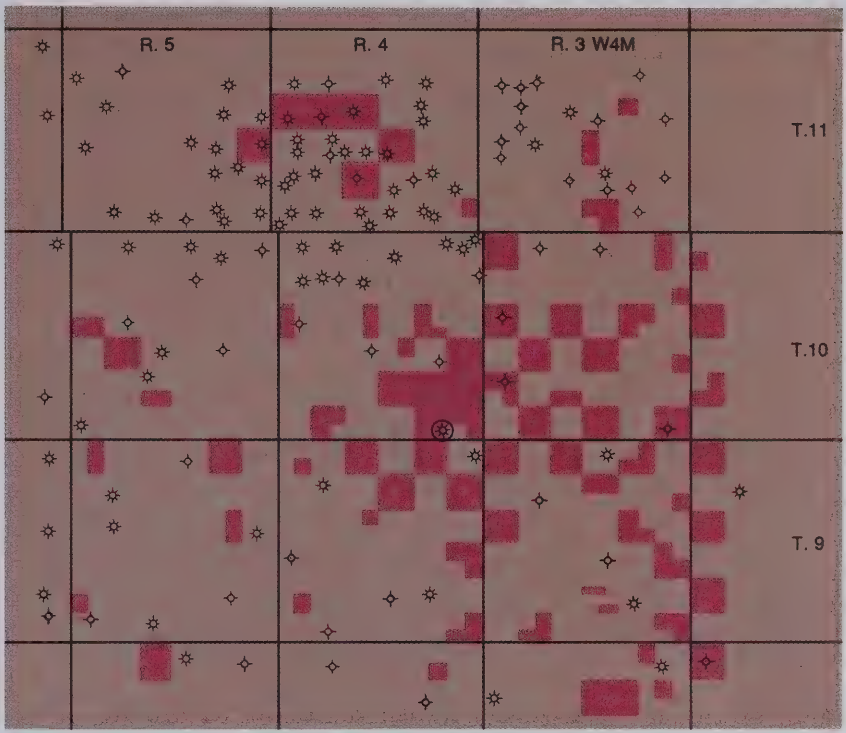
Canadian Reserve working interest acreage
Gas well
Abandoned well
Oil well
1980 wells
0 miles 3

Morningside-Magee

Two exploratory wells and 2 development wells were drilled here during 1980. Two gas wells, 1 dual zone natural gas and oil well and one dry hole resulted. The Company holds interests varying from 25% to 100% in 27,648 hectares in this area.

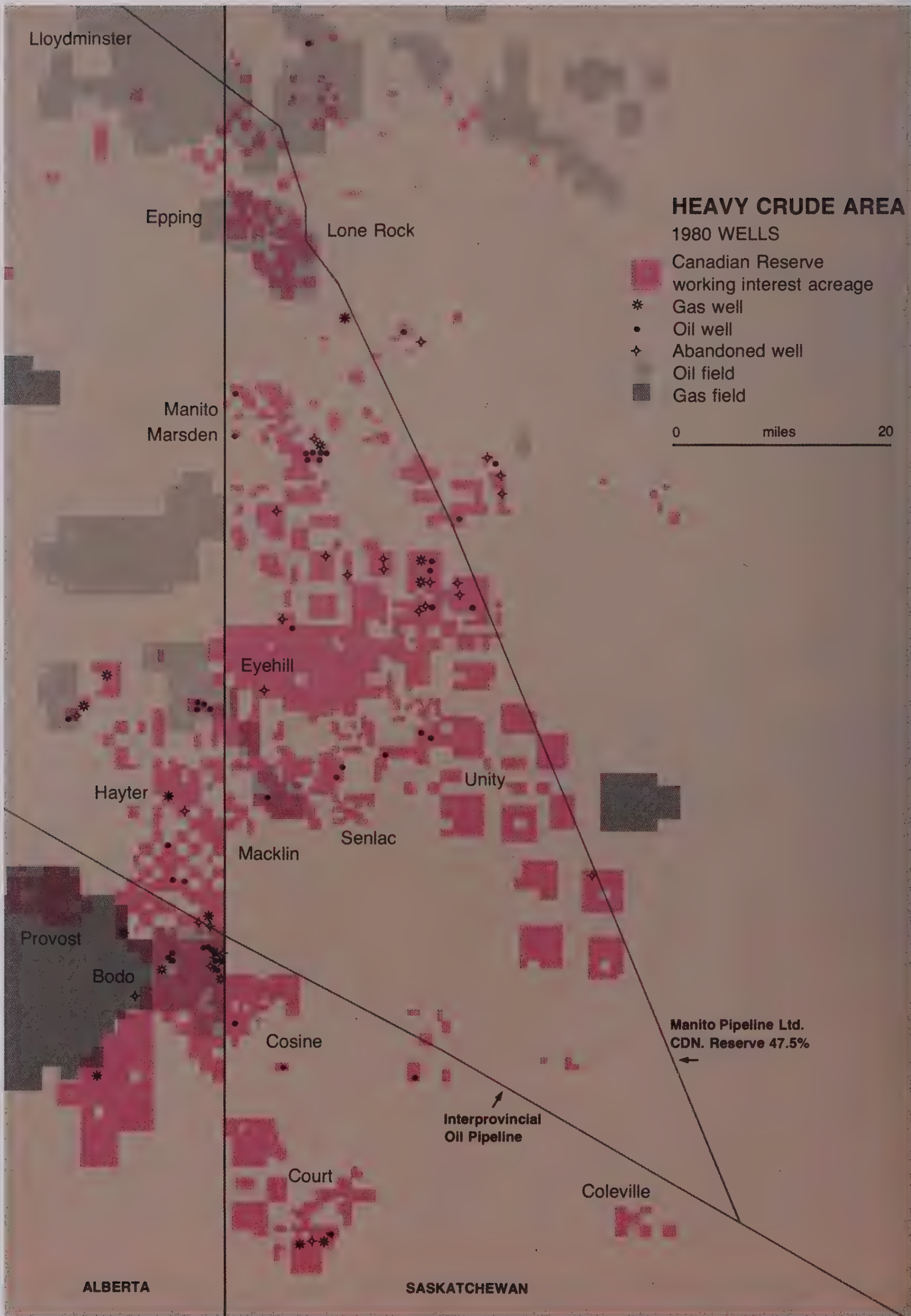
Medicine Hat

Canadian Reserve holds interests in 25,613 hectares in the Medicine Hat area with interests varying from 13% to 100%. During 1980, the Company earned an interest in 4,096 hectares by drilling a 2100 metre natural gas well. The well yielded 131 × $10^3 m^3/d$ on an absolute open flow test. Plans have been made to drill at least 1 follow-up well in 1981.



MEDICINE HAT AREA

Canadian Reserve working interest acreage
Gas well
Abandoned well
1980 wells
0 miles 6



HEAVY CRUDE AREA
1980 WELLS
Canadian Reserve working interest acreage
Gas well
Oil well
Abandoned well
Oil field
Gas field
0 miles 20
Lloydminster
Epping
Lone Rock
Manito
Marsden
Eyehill
Hayter
Unity
Senlac
Macklin
Provost
Bodo
Cosine
Manito Pipeline Ltd.
CDN. Reserve 47.5%
Interprovincial Oil Pipeline
Court
Coleville
ALBERTA
SASKATCHEWAN

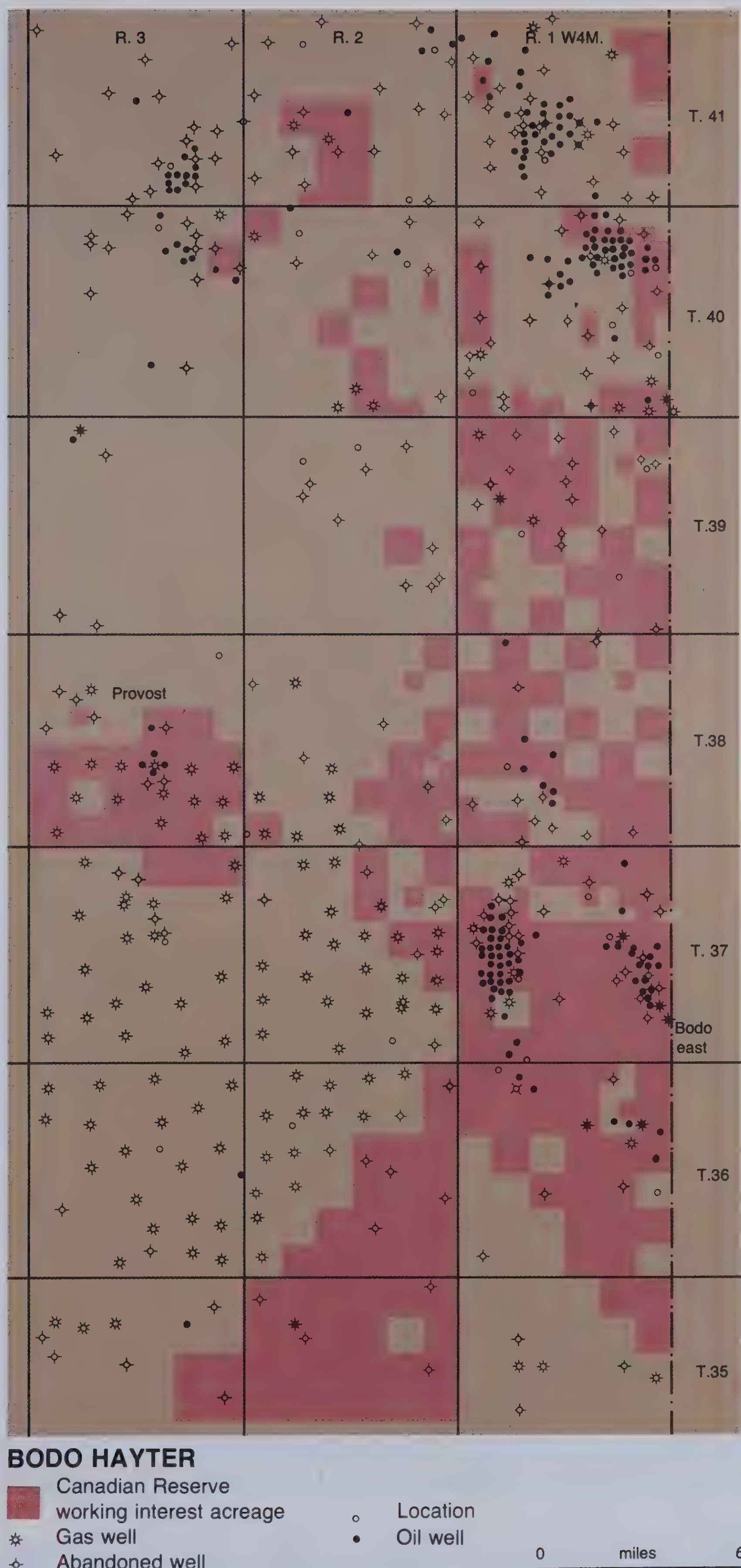
HEAVY OIL AREAS — ALBERTA AND SASKATCHEWAN

During 1980, 129 exploration and development wells were drilled in these areas resulting in 79 oil wells, 6 natural gas wells and 44 dry holes. The Company also participated in 884 kilometres of seismic in this area.

Bodo Hayter (Alberta)

Thirty-three development wells were drilled and these resulted in 21 oil wells, 2 dual oil and natural gas wells, 3 natural gas wells and 7 dry holes. Of the 14 exploratory wells drilled 4 were oil wells, 4 were natural gas wells and 6 were dry and abandoned. This program resulted in the discovery of 3 new McLaren-Waseca sand oil pools and a new Cummings sand oil pool.

Further delineation and development of the Bodo-McLaren pool was also carried out in 1980. The Company has interests varying from 12.5% to 50% in 53,952 hectares in this area.



Bodo East (Alberta)

The Bodo East-Lloyd Cummings oil pool was further delineated in 1980 with the drilling of 8 oil wells and 1 natural gas well.

Cosine South (Saskatchewan)

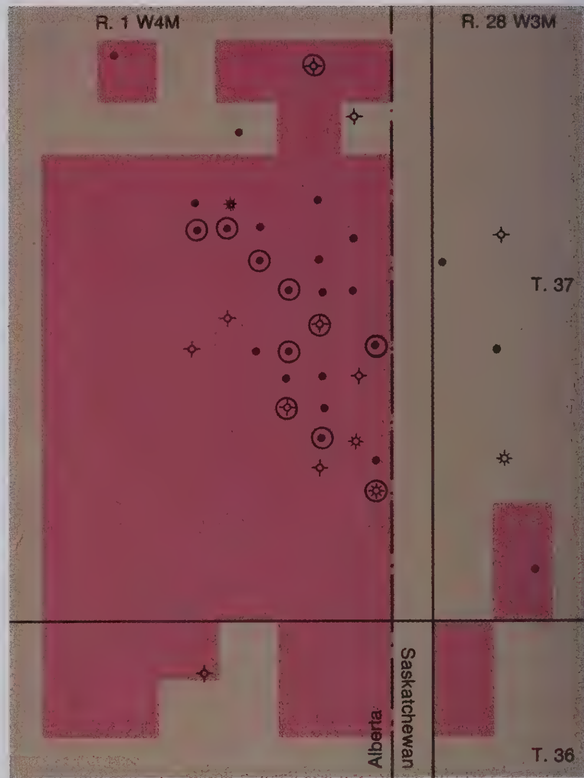
Three development wells were drilled resulting in 3 Bakken oil wells. That portion of the Bakken oil pool held by Canadian Reserve and partners is capable of producing 120 m^3/d of oil.

Marsden (Saskatchewan)

Canadian Reserve participated in the drilling of 3 exploratory wells and 9 development wells in the Marsden area. This resulted in 11 oil wells and 1 dry hole and the discovery of a new Sparky oil pool. The Company has interests varying from 36% to 100% in 6091 hectares in this area.

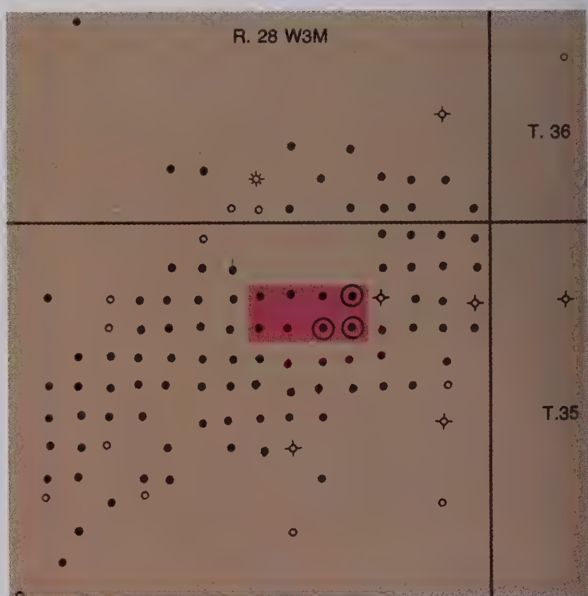
LAND

At December 31, 1980, the Company held working interests in 957,134 hectares of land of which 333,012 hectares were net to the Company. The Company also holds royalty interests in 189,411 hectares of land including lands in western and northern Canada. The Company's most significant increases in land holdings were in the Tenaka, Narraway and Groundbirch areas of British Columbia, the Pine Creek area of Alberta and the heavy oil areas in both Alberta and Saskatchewan.



BODO EAST

Canadian Reserve working interest acreage
Gas well
Abandoned well
Oil well
1980 wells
0 mile 1



COSINE SOUTH AREA

Canadian Reserve working interest acreage
Gas well
Abandoned well
Location
Oil well
1980 wells
0 mile 1

SUMMARY OF LAND HOLDINGS
(as at December 31, 1980)

Area	Working Interest Hectares Gross	Working Interest Hectares Net	Royalty Interest Hectares
Alberta	312,726	136,799	33,659
Saskatchewan	165,772	99,701	12,356
British Columbia	236,028	59,039	34,796
Manitoba	1,263	620	—
Arctic	118,908*	4,459*	108,600
East Coast	75,113	15,022	—
Northwest Territories	12,656	6,903	—
Yukon	34,324	10,297	—
Ontario	344	172	
	957,134	333,012	189,411

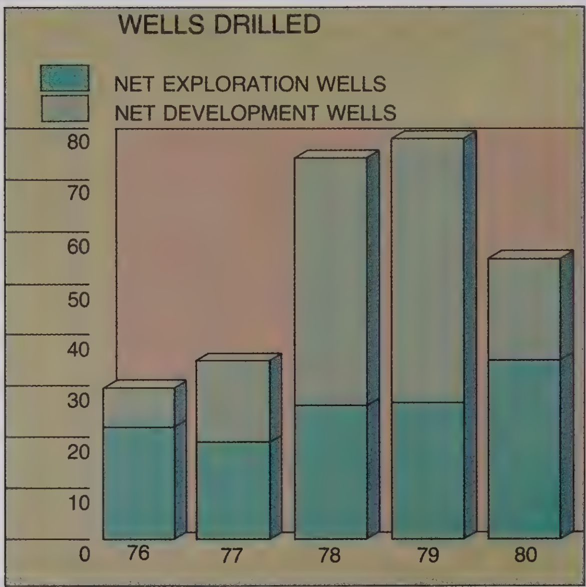
*Note:
Decrease in holdings is due to expiry of non-prospective Federal (Arctic) Permits.

OPERATIONS

Drilling

Exploratory completions totalled 87 wells resulting in 26 oil wells, 21 natural gas wells and 40 dry holes. The Company's interests in the successful exploratory completions resulted in 11.3 net oil wells and 5.7 net gas wells.

Canadian Reserve participated in the drilling of 147 development wells equivalent to 25.5 net wells during 1980. Of this number, 18.7 were completed as successful oil wells, 2.0 as successful gas wells and 4.8 wells were dry and abandoned. The following table illustrates in more detail the drilling activity for the Company during 1980.



WELLS DRILLED

	GROSS	WELLS	NET	WELLS
DEVELOPMENT	**1980**	**1979**	**1980**	**1979**
Oil	74	99	18.7	44.1
Gas	55	45	2.0	3.9
Dry	18	14	4.8	5.2
	147	158	25.5	53.2
EXPLORATORY				
Oil	26	28	11.3	9.2
Gas	21	15	5.7	3.1
Dry	40	54	16.1	14.0
	87	97	33.1	26.3
Total Wells	234	255	58.7	79.5

Production and Sales

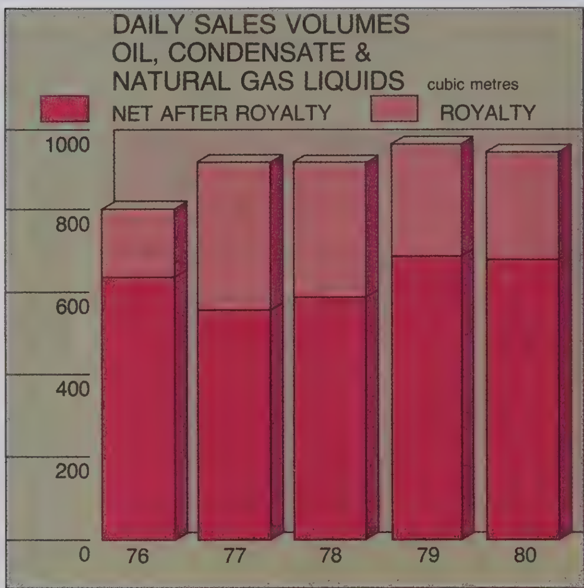
During 1980, the gross working interest oil and natural gas liquids sales averaged 966 m^3/d remaining essentially unchanged from 1979. Sales of heavy oil were curtailed by 25% during the month of October due to a plant turnaround by the purchaser. The curtailment was temporary and sales returned to normal during the month of November.

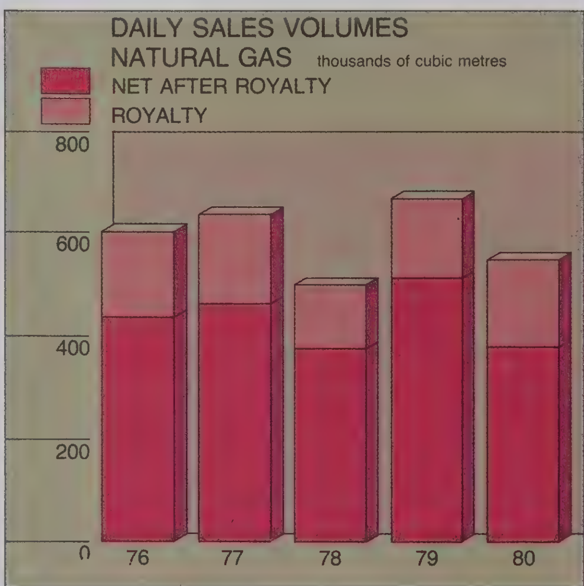
In the West Pembina area of Alberta, the Company participated in the development of a Nisku oil pool with the drilling of a well which was allowed to produce 250 m^3/d during the month of December. At year end, the pool was shut in pending the installation of an enhanced recovery scheme which is scheduled to be completed by the fall of 1981. Production from this pool is expected to contribute significantly to the Company's future cash flow.

After some initial problems, full scale operations of a combination fireflood-steam stimulation pilot project at Eyehill, Saskatchewan, commenced during the fall of 1980. If the pilot project is successful, the recovery of oil in place could be in the order of 40% which is approximately 5 times that of the current recovery. The significance of a successful pilot project in this area is brought into focus by the Company's substantial oil in place in this pool and similar pools at Senlac and North Senlac. Similar thermal recovery pilots are currently planned for the Company's heavy oil holdings in the Lloydminster area.

The daily average gross volumes of natural gas produced by the Company in 1980 were 533 $10^3m^3/d$, a decrease from the 1979 level of 637 $10^3m^3/d$. This decrease is attributable mainly to the reduction of sales volumes below the minimum take or pay volumes in both Alberta and British Columbia.

Gross working interest sulphur production during 1980 amounted to 126 tonnes/d as compared to 122 tonnes/d for 1979. The Company sold 52,839 gross tonnes during 1980 which was essentially unchanged from the sales of 1979. The average price of sulphur doubled during 1980.





Pipeline Transportation

The Company owns an interest in the 185 kilometer Manito Pipeline Limited pipeline system which transports an oil condensate blend from the Lloydminster area to Interprovincial Pipeline Ltd. at Kerrobert for ultimate delivery to Canadian and United States markets. In 1980, the pipeline delivered 820,000 m^3 of blend to the Interprovincial Pipeline, an average of 2250 m^3/day as compared to an average daily rate of 1900 m^3/day in 1979. The pipeline system is now capable of handling a throughput of 3800 m^3/day after the completion of a major expansion that commenced in 1979. Further expansion, by building a lateral to the Eyehill and Bodo areas, is currently being investigated.

Reserves

The remaining recoverable hydrocarbon reserves of Canadian Reserve at December 31, 1980, are detailed in the following table. Those reserves were estimated by Degolyer & MacNaughton, an independent consulting firm.

The estimated proved and probable reserves include only those which can be classified as proved and probable in accordance with classifications defined by the American Petroleum Institute standards and the United States Securities and Exchange Commission.

RESERVES

(before deducting Royalty)

At December 31, 1980

	Oil	**Natural Gas Liquids**	**Natural Gas**
	Cubic Metres	Cubic Metres	Thousands of Cubic Metres
PROVED	2,678,459	227,034	5,186,409
PROBABLE . . .	2,297,843	3,339	550,041
TOTAL	4,976,302	230,373	5,736,450

FINANCIAL REVIEW

ne Company has pledged production from ertain producing properties as security for production loans which bear interest at e current bank prime rate.

ne loan has no current fixed repayment hedule but at the option of the Company's ink it can be converted to a five year term an. Accordingly, one-fifth of this loan is re- ected as current. Another loan is payable it of net revenues from specified properties ith the balance of approximately $2,200,000 ie and payable in 1983.

eferred gas revenue

nder the terms of contracts for the sale of e Company's natural gas, purchasers are quired to pay for minimum quantities of is each contract year. Due to lower than iticipated demand, buyers had to reduce is purchases below minimum contract iantities and accordingly, the Company re- eived $2,438,000 cash (1979 — ,056,000) for gas not delivered.

GROSS REVENUE

Gross revenue increased $6,393,000 to $38,424,000 for the year 1980. Approximately 85% of this increase was attributed to increased oil sales of which 81% came from heavy oil areas. Oil sales volumes were maintained at the 1979 level with price increases accounting for the improvement in sales dollars.

Gas sales markets continued to be a problem resulting in a reduced volume of sales of 16%. This was offset by price increases, so that total dollar sales for natural gas was just slightly over the previous year. Sulphur prices have doubled in the past year with volumes remaining approximately the same.

The following table illustrates the allocation of gross revenue as to heavy oil, conventional oil, and natural gas and its related products.

	1980		1979	
	(thousands of dollars)			
Oil — heavy	**$17,412**	45%	$12,926	40%
Oil — conventional	**7,631**	20%	6,596	21%
Total Oil	**25,043**	65%	19,522	61%
Natural gas	**13,381**	35%	12,509	39%
Gross Revenue	**$38,424**	100%	$32,031	100%

In 1980, a greater percentage of the Company's gross revenue was derived from sales of oil and natural gas from the province of Saskatchewan than in 1979. This was mainly attributable to the lack of natural gas markets and the Company's increased emphasis on operations in the heavy oil area. The following table illustrates the breakdown of gross revenue as to provinces.

	1980		1979	
	(thousands of dollars)			
British Columbia	**$ 3,354**	9%	$ 3,905	12%
Alberta	**16,093**	42%	14,086	44%
Saskatchewan	**18,285**	47%	13,438	42%
Manitoba	**692**	2%	602	2%
Gross Revenue	**$38,424**	100%	$32,031	100%

During the past three years gas purchasers, under contract terms, have been paying the Company for certain volumes of gas but not taking delivery due to lack of markets and reduced sales. The purchaser has a certain number of years in which to take delivery. To date the Company has received $4,035,000 for such gas of which $2,438,000 was for 1980. The total is presently shown on the balance sheet as deferred gas revenue. When purchasers accept delivery of this gas the related dollar value will be transferred from the balance sheet to income in accordance with generally accepted accounting principles.

CASH FLOW

Cash flow generated from operations, which consists of net income before deduction of all non-cash items, increased $3,692,000 or 22% to $20,802,000 for the year. These funds, amounting to $2.11 per share, were equivalent to approximately 86% of the Company's capital expenditures during the year.

DEPRECIATION AND DEPLETION

Depreciation and depletion expenses increased 14% to $6,450,000. Write-offs for oil and natural gas properties and production equipment are based on the unit-of-production method.

Under this method natural gas volumes are converted to equivalent cubic metres of oil based on the relative BTU content of each. The net book value of oil and natural gas properties is divided by the total equivalent cubic metres of proved oil reserves and multiplied by the total equivalent cubic metres of sales to determine the write-offs for the current year.

With the increased cost of finding and developing new reserves, the unit cost of these reserves continues to increase resulting in corresponding increases in depreciation and depletion expense. The additions to reserves in 1980 were greater than those recorded in each of the past few years. This, together with the lower overall sales volumes of oil and gas in 1980, resulted in a more moderate rate of increase in depreciation and depletion expense than that of 1979.

INCOME TAXES

The provision for income taxes increased for the year at a rate of 6%. This provision consists of two categories, current and deferred.

Current income tax is the tax payable for the year based on estimated taxable income. Estimates indicate that there will be no tax payable for 1980. This is the result of increased capital expenditures of which a much greater share is attributable to exploration costs which have a more rapid write-off rate. The credit shown results from an overpayment in the prior year.

Deferred tax consists of the additional tax that would be payable if the tax were calculated on the basis of accounting income rather than taxable income. Because capital expenditures are being written off at a greater rate for tax than for accounting purposes, provision must be made in the accounts to offset the taxes payable in later years when the opposite situation will occur. Deferred tax provided for in 1980 increased 62% to $5,200,000.

NET EARNINGS

Net earnings increased $616,000 to $8,842,000 for 1980. This resulted in $.90 per share in 1980 as compared to $.84 per share in 1979.

WORKING CAPITAL

Working capital at year end totalled $12,052,000 compared to $9,900,000 a year earlier. The working capital ratio of current assets to current liabilities remained at approximately 2 to 1.

Cash balances are kept as low as practical under our cash management program to minimize the carrying charges on borrowed funds. Accounts receivable at year end reflect partners' share of heavy December capital expenditures.

PRODUCTION LOANS

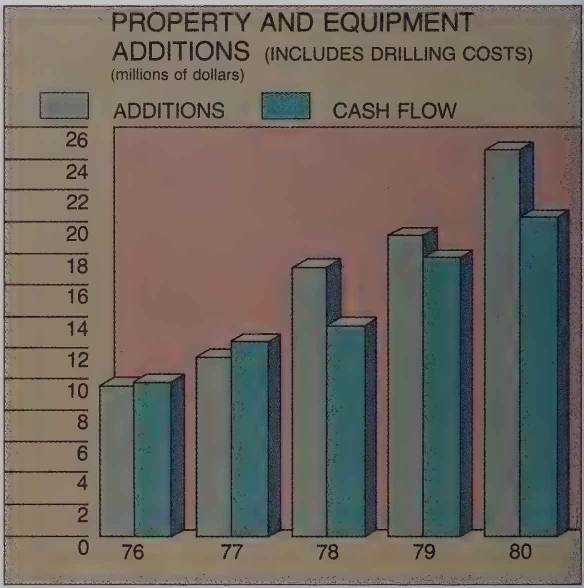
Production loans at December 31, 1980 totalled $13,127,000, an increase over the prior year end of $2,811,000. There were, however, an additional $2,500,000 of short term loans outstanding at December 31, 1979 and therefore the net increase in total loans during the year was $311,000.

The production loan agreement with the bank provides for repayment of the loans over five years if requested and therefore one-fifth of the outstanding total has been included in current liabilities.

PROPERTY AND EQUIPMENT ADDITIONS

Property and equipment additions in 1980 amounted to $24,128,000 up 28% from 1979. Incentive credits received in 1980 totalled $2,823,000 and therefore the total capital expenditures before incentive credits was $26,951,000.

There was a substantial increase in the intangible cost of drilling wells. These costs represented half of the total budget, with approximately 30% of that portion being attributable to dry holes. Leasehold acquisition costs were

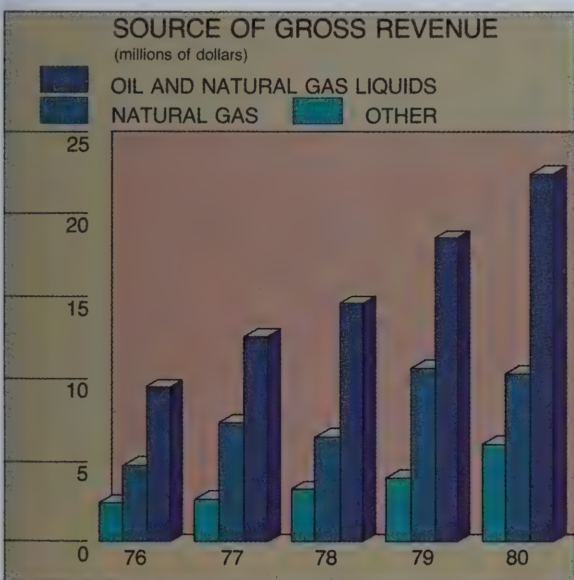


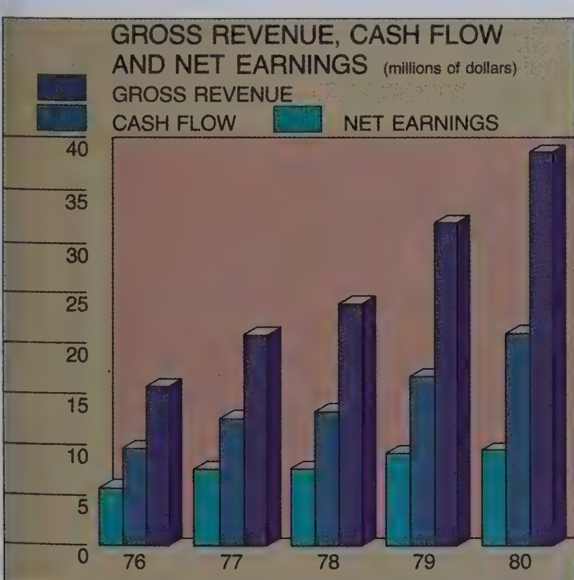
DISTRIBUTION OF PROPERTY AND EQUIPMENT ADDITIONS
(Net after deducting Provincial incentive credits)

	1980		1979	
	(thousands of dollars)			
Drilling of wells	**$12,014**	50%	$8,752	46%
Leasehold acquisition	**2,248**	9%	3,492	18%
Lease and well equipment	**3,138**	13%	3,544	19%
Other facilities	**3,985**	17%	1,122	6%
Geological geophysical	**1,045**	4%	1,062	6%
Exploration overhead	**1,207**	5%	759	4%
Delay rentals	**491**	2%	136	1%
	$24,128	100%	$18,867	100%

about half of the total for the previous year. Included in other facilities was $2.1 million for pipelines (primarily the Manito Pipeline) and $1.1 million for plants (mainly the installation of facilities at Macklin, Saskatchewan).

The distribution by provinces changed from 1979 and was more comparable to that of 1978 and prior years. Drilling and equipping costs were lower in Saskatchewan than 1979 with emphasis on several more expensive wells in Alberta. The expenditures for 1980 (1979) were Alberta 43% (35%), Saskatchewan 34% (52%), British Columbia 21% (12%) and other 2% (1%).





1981 OUTLOOK

The Company forecasts prior to the National Energy Program announcement indicated increases for 1981 in gross income of 22%, cash flow 16% and net earnings of 9%. This forecast was considered to be conservative and it also provided for capital expenditures of $32 million and additional borrowing of $6 million.

The National Energy Program has resulted in significant changes to the 1981 forecast. The lack of any increase in gas prices to the producer and the application of the Petroleum and Gas Revenue Tax will, according to Company estimates, reduce gross revenue by about $1.5 million and increase taxes payable by $3.3 million. This estimated decrease in cash flow has resulted in the removal of $5 million from the 1981 capital expenditures budget.

BALANCE SHEETS

(Incorporated under the laws of the Province of Alberta)

DECEMBER 31, 1980 AND 1979

(thousands of dollars)

ASSETS

	1980	1979
CURRENT		
Cash	**$ 11**	$ 567
Accounts receivable	**17,640**	12,924
Inventories of crude oil and sulphur	**2,095**	1,862
Materials and supplies	**4,477**	4,581
	24,223	19,934
PROPERTY AND EQUIPMENT (Note 2)	**137,049**	113,400
Less accumulated depletion and depreciation	**40,186**	33,830
	96,863	79,570
	$121,086	$ 99,504

On behalf of the Board:

J R Dundas Director

G. McKinley Director

The accompanying notes are an integral part of these balance sheets.

LIABILITIES AND SHAREHOLDERS' EQUITY

	1980	1979
CURRENT		
Bank loan	$ —	$ 2,500
Accounts payable and accrued liabilities	**9,951**	5,484
Current portion of production loans (Note 3)	**2,220**	2,050
	12,171	10,034
PRODUCTION LOANS (Note 3)	**10,907**	8,266
DEFERRED GAS REVENUE (Note 4)	**4,035**	1,597
DEFERRED INCOME TAXES	**24,811**	19,611
SHAREHOLDERS' EQUITY (Note 5)		
Share capital		
Authorized 20,000,000 common shares of $1.00 par value each		
Issued 9,877,737 shares (1979 — 9,837,137)	**9,878**	9,837
Contributed surplus	**6,758**	6,475
Retained earnings	**52,526**	43,684
	69,162	59,996
	$121,086	$99,504

STATEMENTS OF INCOME AND RETAINED EARNINGS

FOR THE YEARS ENDED DECEMBER 31, 1980 AND 1979

(thousands of dollars)

	1980	1979
Revenue	**$ 38,424**	$ 32,031
Expenses		
Operating	**13,042**	10,001
General and administrative	**2,961**	2,104
Depreciation	**1,881**	1,577
Depletion	**4,569**	4,101
Foreign exploration costs	**300**	—
Interest	**1,834**	1,317
	24,587	19,100
Earnings before income taxes	**13,837**	12,931
Income Taxes		
Current	**(205)**	1,505
Deferred	**5,200**	3,200
	4,995	4,705
Net earnings for the year	**8,842**	8,226
Retained earnings, beginning of year	**43,684**	35,458
Retained earnings, end of year	**$ 52,526**	$ 43,684
Earnings per share (Note 7)	**$ 0.90**	$ 0.84

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CHANGES IN FINANCIAL POSITION

FOR THE YEARS ENDED DECEMBER 31, 1980 AND 1979

(thousands of dollars)

	1980	1979
SOURCE OF WORKING CAPITAL		
Net earnings for the year	**$ 8,842**	$ 8,226
Add depletion, depreciation, deferred income taxes and other items not affecting working capital	**11,960**	8,884
Funds from operations	**20,802**	17,110
Deferred gas revenue	**2,438**	1,056
Production loans	**2,641**	4,935
Issue of common shares for cash	**324**	684
Proceeds from sale of equipment	**75**	41
	26,280	23,826
APPLICATION OF WORKING CAPITAL		
Additions to property and equipment	**24,128**	18,866
Reduction of production loans	**—**	2,600
	24,128	21,466
Increase in working capital	**2,152**	2,360
Working capital, beginning of year	**9,900**	7,540
Working capital, end of year	**$12,052**	$ 9,900

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1980 AND 1979

1. Summary of significant accounting policies

Inventories

Inventories of crude oil and sulphur are carried at net realizable value and cost, respectively. Materials and supplies are carried at average cost.

Property and Equipment

The Company follows the full cost method of accounting, wherein all costs related to the exploration for and the development of oil and gas reserves, whether productive or non-productive, are capitalized.

Depletion and Depreciation

Capitalized costs of oil and gas properties, including production equipment, are charged against earnings on the unit-of-production method using estimated proved oil and gas reserves. Certain plants, pipelines and other equipment are depreciated on the straight-line method at rates varying from 5% to 20%.

2. Property and equipment

	1980			1979
	Investment at cost	Accumulated depletion and depreciation	Net investment	Net investment
		(thousands of dollars)		
Oil and gas properties	$ 99,824	$ 27,826	$71,998	$59,860
Plants and production equipment	27,980	9,646	18,334	15,256
Distributing pipelines	6,562	1,949	4,613	2,794
Other	2,683	765	1,918	1,660
	$137,049	$ 40,186	$96,863	$79,570

3. Production loans

The Company has pledged production from certain producing properties as security for its production loans which bear interest at the current bank prime rate.

One loan has no current fixed repayment schedule but at the option of the Company's bank it can be converted to a five year term loan. Accordingly, one-fifth of this loan is reflected as current. Another loan is payable out of net revenues from specified properties with the balance of approximately $2,200,000 due and payable in 1983.

4. Deferred gas revenue

Under the terms of contracts for the sale of the Company's natural gas, purchasers are required to pay for minimum quantities of gas each contract year. Due to lower than anticipated demand, buyers had to reduce gas purchases below minimum contract quantities and accordingly, the Company received $2,438,000 cash (1979 — $1,056,000) for gas not delivered. Buyers are required to take delivery of these gas deficiencies within periods ranging from four to ten years or to forfeit their payments.

5. **Stock option plan**

During the year, options to purchase 192,600 shares were granted and options to purchase 98,400 shares were cancelled. As a result of options exercised during the year, 40,600 shares were issued for $323,874 cash, of which $283,274 was credited to contributed surplus. At December 31, 1980, options granted to officers and employees to purchase 259,900 shares were outstanding. These options are exercisable at various dates to June, 1990, at prices ranging from $2.03 to $18.68 per share.

6. **Statutory information**

Directors and senior officers received remuneration and benefits amounting to $674,000 during 1980 ($600,000 in 1979).

7. **Earnings per share**

Earnings per share are based on the average number of shares outstanding during the year. The exercise of the outstanding share options would have no material dilutive effect.

8. **Comparative figures**

The balance sheet as of December 31, 1979, and the related statements of income, retained earnings and changes in financial position for the year then ended, which are presented for comparative purposes, were examined and reported upon without qualification on February 4, 1980 by Chartered Accountants other than Arthur Andersen & Co.

AUDITORS' REPORT

To the Shareholders of
Canadian Reserve Oil and Gas Ltd.

We have examined the balance sheet of Canadian Reserve Oil and Gas Ltd. as of December 31, 1980, and the related statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements present fairly the financial position of the Company as of December 31, 1980, and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Arthur Andersen & Co.

ARTHUR ANDERSEN & CO.

Chartered Accountants

Calgary, Canada
January 30, 1981

FIVE YEAR SUMMARY

FINANCIAL	1980	1979	1978	1977	1976
(Dollar amounts in thousands except per share figures)					
Gross Revenue	**$ 38,424**	$ 32,031	$ 23,769	$ 21,298	$ 16,111
Cash Flow	**20,802**	17,110	13,713	12,243	9,401
Depreciation & Depletion	**6,450**	5,678	3,557	3,354	2,707
Deferred Taxes	**5,200**	3,200	3,318	2,173	1,500
Net Earnings	**8,842**	8,226	6,884	6,705	5,198
Per Share					
Gross Revenue	**3.89**	3.26	2.46	2.21	1.67
Cash Flow	**2.11**	1.74	1.42	1.27	.98
Net Earnings	**.90**	.84	.71	.70	.54
Property & Equipment Additions	**24,128**	18,900	17,111	11,199	9,178
Working Capital	**$ 12,052**	$ 9,900	$ 7,540	$ 4,495	$ 3,919
Outstanding Shares	**9,877,737**	9,837,137	9,664,837	9,648,437	9,640,437

OPERATING					
*Oil and Natural Gas Liquids					
Sales — M^3					
Gross Working Interest	**352,618**	360,301	334,348	337,694	289,207
Per Day	**966**	987	916	925	790
Net Working Interest	**242,230**	243,947	212,050	208,314	224,676
Per Day	**665**	669	582	571	614
**Natural Gas Sales — 10^3 M^3					
Gross Working Interest	**194,423**	232,463	187,487	227,176	220,271
Per Day	**533**	637	512	623	602
Net Working Interest	**143,606**	175,512	140,688	174,088	164,570
Per Day	**392**	484	385	477	450
Sulphur Sales — Tonnes					
Gross Working Interest	**52,839**	53,956	26,018	52,495	60,569
Per Day	**145**	148	71	144	166
Net Working Interest	**41,760**	42,972	20,751	40,521	50,299
Per Day	**114**	118	57	111	137
Wells Drilled — Gross (Net)					
Oil	**100 (30)**	127 (53)	88 (48)	35 (15)	21 (8)
Gas	**76 (8)**	60 (7)	139 (15)	61 (9)	48 (10)
Dry	**58 (21)**	68 (19)	44 (13)	30 (12)	30 (12)
Total	**234 (59)**	255 (79)	271 (76)	126 (36)	99 (30)

*M^3 — cubic metres **10^3 M^3 — thousands of cubic metres

CORPORATE INFORMATION

DIRECTORS

Ron W. Blair, Los Angeles
Finance Manager, Getty Oil Company's International Exploration and Production Division

Joe R. Dundas, Calgary
President, Canadian Reserve Oil and Gas Ltd.

James M. Farley, Toronto
Partner, Perry, Farley & Onyschuk

Maclean E. Jones, Q.C., Calgary
Partner, Bennett Jones

Glenn E. McKinley, Los Angeles
Vice-President and General Manager Canadian Exploration and Production Division, Getty Oil Company

H. N. Stewart, Calgary
President, H.N.S. Consultants Ltd.

David W. Talbot, Calgary
Vice-President and Secretary-Treasurer, Canadian Reserve Oil and Gas Ltd.

OFFICERS

Glenn E. McKinley
Chairman of the Board and Chief executive Officer

Joe R. Dundas
President

David W. Talbot
Vice-President and Secretary-Treasurer

Bruce F. Sim
Vice-President, Legal and Administration

Ronald W. Ambrose
Vice-President, Exploration

Gus Czeman
Vice-President, Operations

Grant D. Richards
Assistant Secretary-Treasurer and Controller

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Guaranty Trust Company of Canada
Calgary, Alberta; Vancouver, B.C.;
Toronto, Ontario; Montreal, Quebec

STOCK EXCHANGE

Toronto Stock Exchange

lawson graphics western limited
PRINTED IN CANADA

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